PROVINCE OF SASKATCHEWAN

# 2008

## ANNUAL REPORT

## PUBLIC EMPLOYEES GROUP LIFE INSURANCE FUND

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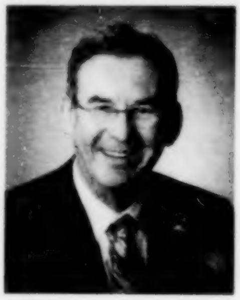
# Letters of Transmittal



His Honour, The Honourable Dr. Gordon L. Barnhart
Lieutenant Governor of the Province of Saskatchewan

May it Please Your Honour:

I have the honour to transmit herewith the seventeenth Annual Report of the Public Employees Group Life Insurance Fund for the year ending December 31, 2008.

Rod Gantefoer
Minister of Finance

The Honourable Rod Gantefoer
Minister of Finance

Sir:

On behalf of the Public Employees Benefits Agency, I have the honour to transmit herewith the seventeenth Annual Report of the Public Employees Group Life Insurance Fund for the year ending December 31, 2008.

Brian Smith
Assistant Deputy Minister
Public Employees Benefits Agency

# Public Employees Group Life Insurance Fund

### Introduction

The Public Employees Group Life Insurance Plan was established on April 1, 1958.

The Plan provides comprehensive life insurance coverage to employees of Executive Government, several Crown Corporations and various Agencies, Boards and Commissions as approved by the Lieutenant Governor in Council.

Spouses and dependent children are also provided coverage under the Plan.

As at December 31, 2008 there were approximately 28,505 insured employees.

### Participating Employers

The following employers participate in The Government of Saskatchewan Group Life Insurance Plan:

Board of Arbitration under The Surface Rights Acquisition and Compensation Act (The)
Cafeteria Board of Saskatchewan
Canadian Labour Congress Local 481 (Saskatchewan Government and General Employees Union, Union Office Employees)
Chief Electoral Officer (Office of the)
Children's Advocate (Office of the)
Crown Investments Corporation of Saskatchewan
Enterprise Saskatchewan
Farm Land Security Board
Horned Cattle Fund
Information and Privacy Commissioner (Office of the)
Information Services Corporation of Saskatchewan
Kelsey Trail Regional Health Authority
Leader of the Opposition (Office of the)
Legislative Assembly Service
Liquor and Gaming Authority
Meewasin Valley Authority
Milk Control Board
NDP Caucus Office
Ombudsman (Office of the)
Power Greenhouses Inc.
Prairie Diagnostic Services Inc.
Prairie North Regional Health Authority
Provincial Auditor (Office of the)
Residential Tenancies (Office of the)
Safe Saskatchewan Inc.
Sask Pork
Saskatchewan Archives Board
Saskatchewan Arts Board
Saskatchewan Assessment Management Agency
Saskatchewan Centre of the Arts
Saskatchewan Communications Network Corporation
Saskatchewan Crop Insurance Corporation
Saskatchewan Film and Video Development Corporation
Saskatchewan Government Insurance
Saskatchewan Human Rights Commission
Saskatchewan Institute of Applied Science and Technology
Saskatchewan Municipal Board
Saskatchewan Party Caucus
Saskatchewan Power Corporation
Saskatchewan Telecommunications Holding Corporation
SaskEnergy Incorporated
SecurTek Monitoring Solutions Inc.
South Saskatchewan River Irrigation District No.1
St. Louis Alcoholism Centre Board of Governors
Sun Country Regional Health Authority
Tourism Authority
TransGas Limited
Wakamow Valley Authority
Wanuskewin Heritage Park Authority
Wascana Centre Authority
Western Development Museums
Workers' Compensation Board (The)

The Board, of each of the following respective pension plans, is responsible for the administration, with respect to individuals receiving benefits under each plan:

Anti-Tuberculosis League Employees

Superannuation Plan
Liquor Board Superannuation Plan
Power Corporation Superannuation Plan (The)
Public Employees Pension Plan
Public Service Superannuation Plan
Saskatchewan Telecommunications Pension Plan (The)
Pension Plan for the Employees of the Saskatchewan Workers' Compensation Board

The Government of Saskatchewan with respect to the following individuals:

Assistant Chief Electoral Officer
Chief Electoral Officer
Children's Advocate
Conflict of Interest Commissioner
Director of Residential Tenancies
Individuals receiving an allowance pursuant to section 5 of The Members of the Legislative Assembly Benefits Act
Individuals receiving benefits under the Judges of the Provincial Court Superannuation Plan
Information and Privacy Commissioner
Judges of the Provincial Court
Legislative Assembly (Members of the)
Members of the Public Service of Saskatchewan as defined by The Public Service Act, 1998
Ombudsman
Provincial Auditor
Supervising Justice of the Peace, appointed under section 3 of The Justices of the Peace Act, 1988

**Administration**

The Public Employees Group Life Insurance Plan is underwritten on a cost-plus basis and is managed by the Public Employees Benefits Agency, Saskatchewan Finance.

The Co-operators Life Insurance Company under Group Policy G.1100 (Life) provides claims adjudication and benefit payment services to the Plan.

Investment Management Services

The Minister of Finance is authorized to invest money of the Group Life Insurance Fund in any class of investments authorized for the investment of moneys in the general revenue fund.

Co-operators Investment Counselling Limited invests the monies of the Fund under a contract to provide services. The Fund pays management fees to Co-operators Investment Counselling Limited.

**Funding**

Funding for the Plan is comprised of employee and employer paid insurance premiums based on salary and the age, gender and smoker status of the employee.

**Premiums/Claims Experience**

| | Dec. 31, 2008 | Restated Dec. 31, 2007 |
|---|---|---|
| Premiums | $11,367,785 | $10,551,385 |
| Claims | 8,097,803 | $8,786,126 |
| # Claims | | |
| - Employee | 63 | 69 |
| - Dependent | 69 | 53 |

# Management's Report

To the Members of the Legislative Assembly of Saskatchewan

As members of management of the Public Employees Group Life Insurance Fund, we are responsible for the preparation and presentation of the following financial statements in accordance with Canadian generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The significant accounting policies adopted in the preparation of the financial statements are fully and fairly disclosed in the financial statements.

The actuary has prepared a valuation report on the provision for life insurance benefits of the Fund, made in accordance with accepted actuarial practices and using assumptions adopted by management. This report has been used in the preparation of the financial statements.

We believe the Public Employees Group Life Insurance Fund has a system of internal control adequate to provide reasonable assurance that the accounts are faithfully and properly kept to permit the preparation of accurate financial statements in accordance with Canadian generally accepted accounting principles.

We enclose the financial statements of the Public Employees Group Life Insurance Fund for the year ended December 31, 2008 and the Provincial Auditor's report on these financial statements.

Brian Smith
Assistant Deputy Minister
Public Employees Benefits Agency

Perry Bahr
Director, Benefit Programs
Public Employees Benefits Agency

Kathy Deck
Director, Financial Services
Public Employees Benefits Agency

Regina, Saskatchewan
March 16, 2009

# Actuaries' Opinion

With respect to the Public Employees Group Life Insurance Plan, we have prepared an actuarial valuation as at December 31, 2008 for the purpose of determining the necessary actuarial information for financial statement reporting. In my opinion, for the purpose of this actuarial valuation:

- the data on which this valuation is based are sufficient and reliable;
- where applicable, the assumptions have been adopted as management's best estimates for accounting purposes and consequently I have not rendered an opinion on them; however, in my opinion, the assumptions are, in aggregate not unreasonable, when considering the circumstances of the plan and the purpose of the valuation; and
- the actuarial cost methods employed are appropriate.

Nonetheless, emerging experience differing from the assumptions will result in gains or losses which will be revealed in subsequent valuations.

This report has been prepared and this actuarial opinion has been given in accordance with accepted actuarial practice.

David Larsen

David R. Larsen, FSA, FCIA
Aon Consulting Inc.

March 16, 2009

# Public Employees Group Life Insurance Fund

## Financial Statements

**Year Ended December 31, 2008**

# Auditor's Report

To the Members of the Legislative Assembly of Saskatchewan

I have audited the statement of financial position of the Public Employees Group Life Insurance Fund as at December 31, 2008 and the statements of operations and net assets, and cash flows for the year then ended. The Fund's management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan
March 16, 2009

Fred Wendel, CMA, CA
Provincial Auditor

**Public Employees Group Life Insurance Fund**
**Statement of Financial Position**

**Statement 1**

**As At December 31**

| | 2008 | 2007 |
|---|---|---|
| ASSETS | | |
| Current Assets: | | |
| Cash | $ 588,162 | $ 150,493 |
| Due from Co-operators Life Insurance Company (Note 4) | 589,118 | 2,750,216 |
| Accounts receivable | 400,200 | 452,854 |
| | 1,577,480 | 3,353,563 |
| Investments (Note 2c, 3) | 73,753,135 | 73,460,307 |
| Total Assets | $ 75,330,615 | $ 76,813,870 |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities: | | |
| Accounts payable | $ 297,575 | $ 475,659 |
| Claims payable | 1,491,834 | 1,358,667 |
| | 1,789,409 | 1,834,326 |
| Payable to other employers (Note 6) | 2,137,816 | 1,924,725 |
| Provision for life insurance benefits (Note 5) | 39,862,800 | 35,427,600 |
| Total Liabilities | 43,790,025 | 39,186,651 |
| Net Assets (Statement 2) | 31,540,590 | 37,627,219 |
| Total Liabilities and Net Assets | $ 75,330,615 | $ 76,813,870 |

(See accompanying notes to the financial statements)

## Public Employees Group Life Insurance Fund
## Statement of Operations and Net Assets

**Statement 2**

### Year Ended December 31

| | 2008 | | 2007 |
|---|---|---|---|
| | Budget (Note 10) | Actual | Actual |
| REVENUE | | | |
| Premiums | $ 11,284,000 | $ 11,367,785 | $ 10,551,385 |
| Investment income (loss) | 4,455,550 | (3,866,448) | 881,430 |
| | 15,739,550 | 7,501,337 | 11,432,815 |
| EXPENSE | | | |
| Claims | 8,844,000 | 8,097,803 | 8,786,126 |
| Change in provision for life insurance benefits | | 4,435,200 | 3,798,300 |
| Administration (Note 7) | 406,629 | 390,915 | 312,123 |
| Premium taxes | 302,300 | 189,361 | 320,311 |
| Adjudication fees | 350,500 | 281,313 | 312,041 |
| Investment management fees | 200,900 | 193,374 | 190,668 |
| | 10,104,329 | 13,587,966 | 13,719,569 |
| (Deficit) surplus for the year | 5,635,221 | (6,086,629) | (2,286,754) |
| NET ASSETS, BEGINNING OF YEAR | 37,627,219 | 37,627,219 | 39,913,973 |
| NET ASSETS, END OF YEAR (Statement 1) | $ 43,262,440 | $ 31,540,590 | $ 37,627,219 |

(See accompanying notes to the financial statements)

**Public Employees Group Life Insurance Fund**
**Statement of Cash Flows**

**Statement 3**

**Year Ended December 31**

| | 2008 | 2007 |
|---|---|---|
| Cash flows (used in) from operating activities: | | |
| Premiums received | $ 11,654,632 | $ 10,940,441 |
| Claims paid | (7,964,636) | (8,186,876) |
| Administration expenses paid | (365,484) | (296,930) |
| Premium taxes paid | (243,143) | (287,082) |
| Adjudication fees paid | (304,798) | (297,462) |
| | 2,776,571 | 1,872,091 |
| Cash flows (used in) from investing activities (Note 2c, 3): | | |
| Proceeds from investments | - | 1,500,000 |
| Purchase of investments | (4,500,000) | (1,500,000) |
| | (4,500,000) | - |
| Net (decrease) increase in cash | (1,723,429) | 1,872,091 |
| CASH, BEGINNING OF YEAR | 2,900,709 | 1,028,618 |
| CASH, END OF YEAR | $ 1,177,280 | $ 2,900,709 |
| Balance consists of: | | |
| Cash | $ 588,162 | $ 150,493 |
| Due from Co-operators Life Insurance Company (Note 4) | 589,118 | 2,750,216 |
| Cash, end of year | $ 1,177,280 | $ 2,900,709 |

(See accompanying notes to the financial statements)

## Public Employees Group Life Insurance Fund
## Notes to the Financial Statements

## December 31, 2008

### 1. Description of Fund

The Public Employees Group Life Insurance Fund (PEGIF) is a special purpose fund used to account for transactions of the Group Life Insurance Plan (Plan). The Plan continues under subsection 64(2) of *The Financial Administration Act, 1993*.

This Plan is managed by the Public Employees Benefits Agency (PEBA) and provides comprehensive life insurance coverage to certain members of the public service of the Province of Saskatchewan and Saskatchewan Crown agencies, whose participation in the Plan has been approved by the Lieutenant Governor in Council. The plan provides basic life insurance coverage at the commencement of employment without a medical examination. Additional coverage may be purchased with a medical examination. The coverage is renewed automatically every year. At retirement, retirement death benefit certificates having values up to $25,000 (basic death benefit certificate $10,000) are given to employees. The cost of providing these certificates to retiring employees is included in the provision for life insurance benefits. At retirement, members can elect to continue insurance coverage. The Plan's insurance coverage does not include accumulation of cash values. The Plan is administered under the terms of an agreement with the Co-operators Life Insurance Company (Co-operators).

Claims are adjudicated and processed for payment by the Co-operators.

Employees and employers pay premiums monthly. Premiums are paid by the employers on the first $7,000 to $30,000 of coverage. Employees pay for the remainder of their coverage at a rate of $0.22 to $0.27 per month per $1,000 coverage.

Premiums for life insurance are waived for disabled members of the Public Employees Disability Income Plan, the Saskatchewan Government Insurance Long Term Disability Plan, and the Saskatchewan Government and General Employees Union Long Term Disability Plan. The cost of providing life insurance coverage (benefit) due to waiver of premiums is included in the provision for life insurance benefits.

During the period of agreement all death claims from a catastrophic accident over and above the two largest individual claims will not be charged to the Plan. Catastrophic accident means each and every accident or series of accidents arising out of one event or occurrence resulting in the death of three or more people insured under the Plan. The Plan pays 0.35% of premium revenue to the Co-operators for this coverage. The amount expensed during the year is included in adjudication fees and the Plan had no claims for 2008 (no claims for 2007).

### 2. Significant Accounting Policies

Pursuant to standards established by the Public Sector Accounting Board, the Plan is classified as an other government organization. These financial statements are prepared in accordance with Canadian generally accepted accounting principles applicable to for-profit entities. The following accounting policies are considered significant.

a) Change in accounting policies

Effective January 1, 2008, three new presentation and disclosure standards were adopted: Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535, *Capital Disclosures* (Section 1535); Handbook Section 3862, *Financial Instruments - Disclosures* (Section 3862); and Handbook Section 3863, *Financial Instruments - Presentation* (Section 3863).

Section 1535 requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. As this standard only addressed disclosure requirements, there is no change in net assets.

Section 3862 and 3863 replaced Handbook section 3861, *Financial Instruments - Disclosure and Presentation*. The new disclosure standards increase the disclosures related to financial instruments and the nature, extent and management of the Plan's risks arising from financial instruments. The presentation standards carry forward unchanged from the former presentation requirements. As these standards only address disclosure and presentation requirements, there is no impact on PEGIF's net assets.

b) Premium revenue

Premiums are recognized when due.

c) Investments

The investments are held by the Co-operators Life Insurance Company on behalf of PEGIF in a segregated fund. All investments in the segregated fund are valued at fair value. The fair value of short-term notes is based on cost. The cost of short-term notes plus accrued interest approximates their market value. Canadian government and corporate bonds, Canadian and US equities, and non-North American equities are valued at the closing bid price. The market values of investments in foreign currencies are translated into Canadian dollars at the closing rate of exchange on the valuation date. The purchase and sales of investments, income and expenses are translated at the rate of exchange prevailing on the respective dates of such transactions.

d) Provision for life insurance benefits

Group Life policies are considered yearly termed life policies that are automatically renewed every year. Under such life policies, claims are recorded in the year of the claim. The provision for life insurance benefits represents the present value of future payments arising from benefits for disabled employees whose premiums have been waived and includes an estimated amount for claims incurred but not yet reported. The provision also includes the present value of the retirement death benefit certificates for those employees who retired prior to year end. The provision for life insurance benefits is subject to uncertainty and is selected from a range of possible outcomes. Adjustments to the provisions for life insurance benefits are made as additional information becomes available. The provision for life insurance benefits is determined pursuant to an actuarial valuation. Any resulting change in the liability pursuant to the valuation is recognized as a revenue or expense item in the statement of operations and net assets.

e) Claims expense

Claims are recognized in the year they are incurred. Claims expense includes future payments arising from life claims received during the year and an estimate of life claims received after the year end for fatalities that occurred during the year.

f) Use of Estimates

These statements are prepared in conformity with Canadian generally accepted accounting principles. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. Differences are reflected in current operations when identified.

The primary measurement uncertainty arising from the use of estimates which may affect reported amounts, relates to the valuation of the provision of life insurance benefits – see Note 5.

g) Financial instruments

Receivables and payables are measured at amortized cost. The investments held by Co-operators Life Insurance Company on PEGIF's behalf are measured at fair value.

The carrying value of financial instruments approximates their fair value. Changes in fair value are recognized in the Statement of Operations and Net Assets.

h) Future accounting policy changes

The Accounting Standards Board of the Canadian Institute of Chartered Accountants has issued an exposure draft proposing to adopt International Financial Reporting Standards (IFRS) effective January 1, 2011. At that time, the Plan will effectively cease to use Canadian GAAP and will adopt IFRS. The Plan is monitoring the transition to IFRS and is assessing the impact that the adoption of IFRS will have on its financial statements.

## 3. Investments

At December 31, 2008, the investments held on behalf of PEGIF by the Co-operators Life Insurance Company in the segregated fund consist of short-term notes, Canadian government and corporate bonds, Canadian and US equities. The investments are subject to interest rate risk, credit risk, market risk, and foreign exchange risks. In accordance with the Plan's Statement of Investment Policy and Goals, PEBA limits these risks by regulating the aggregate and individual investments limits, by setting quality parameters of investments, and by setting other constraints.

Co-operators does not remit the investment income to PEGIF; it reinvests the income, net of management fees, in the segregated fund.

## 4. Due from Co-operators Life Insurance Company

According to the agreement between PEBA and Co-operators, Co-operators has established an account for receipt of PEGIF's premiums and payment of claims and administrative expenses. The balance in this account represents monies due from Co-operators to PEGIF.

## 5. Provision for Life Insurance Benefits

An actuarial valuation was performed by Aon Consulting Inc. as at December 31, 2008 and as at December 31, 2007, to determine the liability for future costs of providing life coverage to existing disabled employees whose premiums have been waived (waived premiums) prior to year end and the retirement death benefit certificates (retirement certificates) for those employees who retired prior to year end.

The actuarial valuation of future benefits as at December 31 and the principal components of the change in actuarial valuation during the year were as follows:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Waived Premiums | Retirement Certificates | Waived Premiums | Retirement Certificates |
| Actuarial valuation, beginning of year | $16,752,300 | $18,675,300 | $15,072,200 | $16,557,100 |
| Interest on previous liability | 921,400 | 1,027,100 | 753,600 | 827,900 |
| Mortality and termination experience (gain) loss | (517,800) | 9,300 | (683,100) | 130,600 |
| New claims | 6,759,500 | 2,166,700 | 4,989,700 | 2,710,700 |
| Expected benefit payments | (3,672,900) | (809,800) | (3,084,200) | (692,900) |
| Change in assumptions | (312,000) | (1,136,300) | (295,900) | (858,100) |
| Total actuarial valuation liability, end of year | $19,930,500 | $19,932,300 | $16,752,300 | $18,675,300 |

The total liability as at December 31, 2008 is $39,862,800 (2007 - $35,427,600). The liability includes $19,932,300 (2007 - $18,675,300) for retirement death benefit certificates and $19,930,500 (2007 - $16,752,300) for life coverage for those disabled employees whose premiums have been waived.

The valuation is based on the following assumptions: 1) the life waiver valuation uses a table derived from the *Group Life Waiver Study Based on 1988-1994 Canadian Group LTD Termination Experience*, published November 2001, with mortality rates adjusted to 200%; 2) the interest rate assumed is 6.0% (2007 - 5.5%); 3) the mortality rates of existing retirees are based on the Complete Life Table, Canada 2000-2002; 4) the inflation rate assumed is 2.5% (2007 – 2.5%) for all future years.

If the valuation assumed no indexing of the level of insurance for those disabled employees, the liability at December 31, 2008 would be $37,829,700 (2007 - $33,623,200).

The liability for the cost of providing life insurance coverage to disabled employees whose premiums have been waived prior to year end and the retirement death benefit certificates for those employees who retired prior to year end are based on a number of assumptions about future

events including: recovery and mortality rates and interest rates. The actual experience may vary significantly from the assumptions used.

The following illustrates the effect of changes in the interest rate and mortality on the retirement death benefit certificate liability:

- a 1% change in the interest rate equals a 14% change in the liability including the cost of living adjustment as determined by the consumer price index
- a 10% change of the Group Life Insurance mortality equals a 3.5% change in the liability

The following illustrates the effect of changes in the interest rate, cost of living adjustment and mortality on group life waivers:

- a 1% change in the interest rate equals a 4.5% change in the liability including the cost of living adjustment as determined by the consumer price index
- a change in the cost of living adjustment of 1% equals a 4.3% change in the liability
- a change of waiver mortality by 10% equals a 8.2% change in the liability

The provision for life insurance benefits is long-term in nature and there is no market for settling these obligations. Therefore, it is not practical to determine the fair value of the provision for life insurance benefits.

## 6. Payable to Other Employers

Public Service Commission, Prairie North Regional Health Authority and Sun Country Regional Health Authority (in conjunction with Canadian Union of Public Employees, Local 600), SaskEnergy, SaskPower, and Saskatchewan Government Insurance (SGI) signed agreements whereby these agencies became responsible for the additional $5,000 (total of $10,000 except for SGI total of $15,000 or $25,000) paid up life insurance policy to their employees upon retirement (Retirement Death Benefit Certificates).

These agencies pay the premiums for this enhanced benefit to PEGIF and PEGIF pays the claims on behalf of the employers. The payable represents the accumulated difference between premiums collected and the claims paid. The fair value of the payable approximates its carrying value.

## 7. Administration Expenses

PEBA administers PEGIF for a fee.

## 8. Investment Performance

PEGIF's investments are represented by the amounts held by Co-operators Life Insurance Company (see note 2c, 3). Following is a summary of the investment performance:

| | 2008 | Four year annualized return |
|---|---|---|
| Actual (a) | (5.3%) | 3.9% |
| Benchmark (b) | (7.1%) | 2.9% |

(a) The annual returns are before deducting investment expenses.

(b) The benchmark return is PEGIF's target rate of return for its segregated fund. The benchmark return is based on the performance of PEGIF's planned investment portfolio for its segregated fund.

PEBA can invest money of PEGIF in any securities authorized for investment pursuant to PEGIF's Statement of Investment Policies and Goals (Statement). PEBA has made an agreement with Addenda Capital Inc. (formerly Co-operators Investment Counselling Ltd.) to invest the monies of PEGIF in the Co-operators segregated fund consistent with the Statement. PEGIF pays management fees to Addenda Capital Inc. for providing this service.

## 9. Financial Risk Management

The nature of the Plan's operations result in a statement of financial position that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Significant financial risks are related to the Plan's investments. These financial risks are managed by having an investment policy, which is approved annually. The investment policy provides guidelines to the Plan's investment manager for the asset mix of the portfolio regarding quality and quantity of fixed income and equity investments. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. PEBA reviews regular compliance reports from its investment manager as to its compliance with the investment policy. PEBA also reviews regular compliance reports from the pooled fund custodian as to the investment manager's compliance with the investment policy.

### Credit risk

The Plan's credit risk arises primarily from two distinct sources: accounts receivable and certain investments. The maximum credit risk to which it is exposed at December 31, 2008 is limited to the carrying value of the financial assets summarized as follows:

| | (thousands of $'s) 2008 Carrying value | 2007 Carrying value |
|---|---|---|
| Accounts receivable | $ 400 | $ 453 |
| Due from Co-operators Life Insurance Company | 589 | 2,750 |
| Investments[1] | 48,254 | 47,803 |

[1]Bonds & short-term Investment held on behalf of PEGIF in a segregated fund.

Accounts receivable are primarily made up of employee and employer contributions receivable.

Employee and employer contributions receivable are generally received within 30 days.

Credit risk within investments is primarily related to the Money Market Pooled Fund and the Fixed Income Pooled Fund. It is managed through the investment policy that limits fixed term investments to those of high credit quality (minimum rating for bonds, BBB, and for short-term investments is R-1) along with limits to the maximum notional amount of exposure with respect to any one issuer.

**Market risk**

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

Interest rate risk

The Plan is exposed to changes in interest rates in its fixed income investments. Duration is a measure used to estimate the extent market values of fixed income instruments change with changes in interest rates. Using this measure, it is estimated that a 100 basis point increase in interest rates would decrease the net assets available for benefits by $3.3 million at December 31, 2008, representing 6.8% of the $48.2 million fair value of fixed income investments.

Foreign exchange

The Plan is exposed to changes in the U.S. dollar exchange through its U.S. equities. Exposure to U.S. equities is limited to a maximum 18% of the market value of the total investment portfolio. At December 31, 2008, the Plan's exposure to U.S. equities was 9.1% (2007 – 10.8%).

At December 31, 2008, a 10% appreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a $0.7 million decrease in net assets available for benefits.

Equity prices

The Plan is exposed to changes in equity prices in Canadian and U.S. markets through its equity investments. Equities comprise 18.1% (2007 – 34.6%) of the carrying value of the Plan's total investments.

The following table indicates the approximate change that could be anticipated to the increase in net assets available for benefits based on changes in the Plan's benchmark indices at December 31, 2008:

| | (Change in thousands of $) | |
|---|---|---|
| | 10% increase | 10% decrease |
| S&P/TSX Composite Index | $ 664 | $ (664) |
| S&P 500 Index | 666 | (666) |

**Liquidity risk**

Liquidity risk is the risk that the Plan is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows. Accounts payable and claims payable are due within one year.

The amount payable to other employers and provision for benefits are long term in nature per notes 5 and 6.

## 10. Budget

PEBA approved PEGIF's annual budget.

## 11. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to PEGIF by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control or significant influence by the Government of Saskatchewan collectively referred to as "related parties". These transactions are recorded at agreed upon exchange amounts.

At year-end, the following amounts were due to/from related parties as a result of the transactions referred to above:

| | 2008 | 2007 |
|---|---|---|
| Accounts receivable | $400,200 | $452,854 |
| Accounts payable | $265,235 | $397,142 |

Other transactions with related parties and amounts due to/from them are described separately in the financial statements and notes thereto.

## 12. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.